

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15 STR-04

ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00

OMB-01 AF-10 ARA-10 EA-07 NEA-10 OIC-02 XMB-02

/140 W

-----092911 111356Z /50

R 111232Z AUG 77

FM USMISSION GENEVA

TO SECSTATE WASHDC 0202

INFO AMEMBASSY BRUSSELS

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USEEC

E.O. 11652: N/A

TAGS: GATT, ETRD

SUBJ: EXPORT COST INFLATION SCHEME (EII) WORKING PARTY

REF: A. STATE 144599; B. GENEVA 6349

1. WE MET WITH EC (ABBOTT) AUGUST 10 TO SEEK WAY OUT OF IMPASSE
IN EII WORKING PARTY. FOLLOWING POINTS WERE DISCUSSED:

2. CONCLUSIONS.

(A) ABBOTT SAID THAT CONCLUSIONS CONTINUE TO BE MOST DIFFI-
CULT PROBLEM FOR EC, AND THAT EC COULD ACCEPT EITHER ORIGINAL
DRAFT BY SECRETARIAT OR A REPORT EXPRESSING THE OPINIONS OF
MEMBERS WITHOUT CONCLUSIONS. IF, HOWEVER, THE US INSISTED ON
TRYING TO DIFFERENTIATE THOSE MEMBERS MAINTAINING EII FROM
THOSE NOT MAINTAINING EII, THE EC COULD NOT CONTROL THE OUT-
COME. THIS IS SO, HE SAID, BECAUSE THE UK AND FRANCE WOULD
INSIST ON PUTTING IN REBUTTAL LANGUAGE TO ANY CONCLUSIONS THE
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US ATTEMPTED TO FORMULATE FOR COUNTRIES WITHOUT EII SCHEMES.
US LANGUAGE ON "DISTORTIVE EFFECTS" ALSO GIVES THE EC DIFFI-
CULTIES BECAUSE OF EC CONTENTION THAT EII ARE ILLEGAL UNDER
ARTICLE 92 OF THE ROME TREATY. IN SHORT, THE EC COULD NO
LONGER SPEAK FOR NINE AND WOULD HAVE TO ALLOW THE MEMBER
STATES TO MAKE THEIR OWN POINTS, A PROCEDURE THAT ABBOT IS
LOATH TO ALLOW FOR OBVIOUS BUREAUCRATIC REASONS. HE ALSO

THOUGHT THAT UK-FRENCH LANGUAGE IN CONCLUSIONS WOULD BE UN-ACCEPTABLE TO US.

(B) WE ARGUED THAT WE WOULD NOT KNOW IF ATTEMPT TO MAKE CONCLUSIONS MORE PRECISE WOULD FAIL UNTIL WE MADE EFFORT AND ABBOTT RELUCTANTLY AGREED TO TRY TO SELL NEW US DRAFT TEXT STEMMING FROM OUR DISCUSSION TO OTHER EC MEMBERS, ALTHOUGH HE WARNED THAT UK AND FRENCH LIKELY TO INSIST ON STRONGER LANGUAGE IN DEFENSE OF THEIR SCHEMES. IF THIS HAPPENED, HE THOUGHT DUTCH AND FRG MIGHT WANT TO MAKE STATEMENTS, AND HE WOULD BE IN PRECISELY THE SITUATION HE FEARED. ACCORDINGLY, WE HAVE SENT TO ABBOTT THE FOLLOWING LANGUAGE ON CONCLUSIONS THAT DELINEATES BETWEEN THOSE MEMBERS MAINTAINING THE SCHEMES, THOSE WHO HOLD THEM TO BE ILLEGAL (CANADA, US, NORWAY), THOSE WHO DON'T LIKE THEM BUT WON'T GO AS FAR AS THE US ORIGINAL DRAFT CONCLUSIONS IN PARA 2 OF REF (A) (SWEDEN, SWITZERLAND), AND THOSE WHO HAVE NO OPINION:

BEGIN QUOTE.

THE WORKING PARTY COULD NOT REACH ANY UNANIMOUS CONCLUSION AS TO THE COMPATIBILITY OF THE EXPORT INFLATION INSURANCE SCHEMES WITH THE PROVISION OF THE GENERAL AGREEMENT.

THE MEMBERS OF THE WORKING PARTY MAINTAINING ACTIVE EII SCHEMES HELD THE VIEW THAT EXPORT INFLATION INSURANCE SCHEMES WERE IN CONFORMITY WITH THE GENERAL AGREEMENT SINCE THEY WERE LIMITED OFFICIAL USE

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NOT SUBSIDIES AND SINCE NO EVIDENCE OF DUAL-PRICING HAD BEEN PRODUCED IN THE WORKING PARTY.

SEVERAL MEMBERS OF THE WORKING PARTY HELD THE VIEW THAT EXPORT INFLATION INSURANCE SCHEMES UNDER EXAMINATION BY THE

WP WERE SUBSIDIES IN CONTRAVENTION OF ARTICLE XVI:4 AND SHOULD BE NOTIFIED UNDER ARTICLE XVI:1. THESE MEMBERS EXPRESSED SPECIAL CONCERN OVER THE DEGREE OF SUBSIDY INVOLVED IN ONE SCHEME WHICH HAD INCURRED SUBSTANTIAL LOSSES FINANCED BY THE GOVERNMENT.

THESE AND SEVERAL OTHER MEMBERS OF THE WORKING PARTY EXPRESSED CONCERN OVER THE DISTORTIVE EFFECT WHICH THESE SCHEMES HAVE ON INTERNATIONAL TRADE IN PRODUCTS COVERED BY THE SCHEMES AND OVER THE FACT THAT THESE PROGRAMS ENCOURAGE THE ADOPTION OF SIMILARLY DISTORTIVE MEASURES BY OTHER NATIONS.
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SOME MEMBERS OF THE WORKING PARTY EXPRESSED NO VIEWS.
END QUOTE.

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USEEC

3. EXCHANGE GUARANTEE SCHEMES. ABBOTT SAID THAT EC IS ADAMANT ABOUT INCLUDING PARAGRAPHS EXPLAINING WHY EXCHANGE GUARANTEE SCHEME SHOULD BE EXAMINED BY WP. HE POINTED OUT THAT US AND OTHERS REALLY HAVE LITTLE JUSTIFICATION FOR ATTEMPTING TO CUT OTU THESE PARAGRAPHS SINCE THEY ARE A SYNOPSIS OF A MUCH LONGER STATEMENT WHICH HE MADE. WHEN ASKED IF, AS ABBOTT SUGGESTED AT THE LAST MEETING OF WP, EC WOULD ACCEPT ANNEXING EC STATEMENT TO WP REPORT, ABBOTT INDICATED THAT HE NOW PREFERRED THAT THE EC PARAGRAPHS BE INCLUDED IN THE BODY OF THE REPORT, ALONG WITH REBUTTAL STATEMENT BY SWITZERLAND. ABBOTT ALSO REFUSED TO SHORTEN STATEMENT, POINTING OUT THAT THREE-PARAGRAPH SUMMARY OF FIVE-PAGE STATEMENT WAS NOT EXCESSIVE. ONLY WAY OUT FOR US, HE SUGGESTED, WAS EITHER TO ASSOCIATE ITSELF WITH SWISS REBUTTAL OR TO MAKE SEPARATE REBUTTAL.

4. SELF FINANCING. ABBOTT SAID THAT EC HAS NOT YET SUBMITTED SEPARATE PARAGRAPH ON SELF-FINANCING SUGGESTED BY HIM AT LAST MEETING, BUT THAT THAT MATTER WAS STILL UNDER CONSIDERATION
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IN BRUSSELS. HE SAID THAT THERE WAS SOME OPPOSITION IN B
BRUSSELS TO INDICATING THE EII MIGHT BE LEGAL UNDER CERTAIN
CIRCUMSTANCES, AND COUPLED WITH STRONG US OPPOSITION TO PARA-
GRAPH, MIGHT KILL ABBOTT'S INITIATIVE. HE ASKED, HOWEVER,
THAT US GIVE CONSIDERATION TO HIS ALTERNATE SUGGESTION WHICH
WAS TO HAVE EC STATEMENT ON SELF-FINANCING WITH A REBUTTAL
PARAGRAPH, THUS FOCUSING ATTENTION ON ONE OF MAIN CONTENTIOUS
ISSUES IN WP. WE SAID THAT WE WOULD PASS THIS ON TO WASHING-
TON AS AN ALTERNATIVE BUT THAT WE THOUGHT WASHINGTON WOULD
PREFER THAT ANY STATEMENTS ON SELF-FINANCING REMAIN IN BODY
OF TEXT WITHOUT HIGHLIGHTING ISSUE FURTHER.

5. FORMAT. ON QUESTION OF USE OF COUNTRY NAMES, EC REMAINS
OPPOSED TO SPECIFIC MENTION OF FRENCH IN CONCLUSIONS. ABBOTT
NOTED THAT MOST OTHER DELEGATIONS, INCLUDING THOSE OPPOSED TO
THE FRENCH SCHEME, SUPPORT THIS VIEW. ABBOTT HAD NO OBJECTION
TO IDENTIFYING EACH COUNTRY BY NAME IN THE BODY OF THE REPORT
AND WE AGREED TO ATTEMPT TO SELL THIS FORMAT TO THE OTHER
MEMBERS OF THE WP.

6. TIMING. BECAUSE OF THE VACATION PERIOD, NOTHING CAN BE DONE
BEFORE SEPTEMBER. ABBOTT WILL MEET WITH THE EC ON THE 8TH AND
9TH OF SEPTEMBER. IN THE MEANTIME, BEGINNING IN EARLY SEPTEMBER
HE WILL GET FRENCH AND UK REACTIONS TO US LANGUAGE ON CON-
CLUSIONS.

7. NEW SECRETARIAT DRAFT OF WP REPORT HAS BEEN DELAYED BECAUSE
OF GATT MOVE TO NEW QUARTERS. WE WILL POUCH IT TO INTERESTED
PARTIES AS SOON AS IT BECOMES AVAILABLE.

8. COMMENT: WITH WP MEETING SCHEDULED FOR SEPT 12-13, IT IS
CLEAR THAT WE ARE LIKELY TO BE ATTEMPTING TO RESOLVE DIFFER-
ENCES ON THRESHOLD OF MEETING. IN THESE CIRCUMSTANCES, WASH-
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INGTON SHOULD ESTABLISH ALTERNATIVES IF ABBOTT'S ATTEMPTS
WITH UK AND FRANCE FAIL. IF WE CANNOT OBTAIN LANGUAGE ALONG
LINES OF PARA 1 ABOVE, DOES WASHINGTON PREFER WEAKER
SECRETARIAT DRAFT OR REPORT WITHOUT CONCLUSIONS? ON SELF-
FINANCING, DO WE CONTINUE TO BLOCK SEPARATE PARAGRAPH OR DO
WE ACCEPT ABBOTT'S SUGGESTION FOR HIGHLIGHTING THIS ISSUE?
ON EXCHANGE GUARANTEE SCHEMES, DO WE ASSOCIATE OURSELVES WITH
THE SWISS REBUTTAL OR LET PARAGRAPHS STAND AS THEY ARE?
VANDEN HEUVEL

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Message Attributes

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